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EXHIBIT 3
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HB 598

I am here to voice my opposition to HB598, because this bill will reduce incentives to Oil & Gas companies to explore and drill in Montana. I am assuming that the intent of the author of HB598 was to increase revenue to the State of Montana. My question to the committee is "Is HB598 the right solution? Is it the best way to realize increased tax revenues from the Oil & Gas Industry?" There are always two sides to every discussion—more than one way to skin the cat.

I am here to state that this bill—If enacted—will be counter-productive and in fact, will diminish the financial opportunities for our wonderful State. I believe the most effective way to derive more tax revenue from the Oil & Gas Industry is to support the growth of the Industry. Let me explain what I mean, and why I believe this to be true. Last year the direct benefit to the State from O&G production taxes was \$205,000,000. The production taxes are only ½ of the story.

I will use North Central Montana as an example. There are approx 300 people working directly in the O&G industry in our area, and these people contribute to the general fund. These people have good paying jobs averaging \$40,000/year. These 300 people pay income taxes and property taxes to the State. These 300 people need pastors, teachers, barbers, coaches, mechanics, carpenters, etc. The ancillary income to the general fund as a direct result of O&G activity is at least equal to the direct income from O&G taxation. This brings the direct benefit to the State from O&G activity up from \$205 million, to \$350 million dollars per year. All of these dollars emanate from approximately 1,000 wells drilled in the State each year. If the O&G Industry in Montana doubled the average number of wells drilled in Montana to 2,000 wells/year, we could expect to see an additional \$250 million dollars to flow into Montana's coffers.

The main focus of my presentation this morning is to show that O&G activity in Montana has a huge impact on the revenue picture for the State. O&G activity is directly related to tax policy. You have a color graph which shows how O&G activity is affected by tax policy. As you can see in about the middle of the graph, the tax incentives were put in place in Montana in 1994 as part of a comprehensive tax overhaul package. Almost immediately, the decline in production stopped. Exploration companies were able to justify drilling horizontal wells, and that activity is reflected in the blue portion of the graph. Horizontal wells at this time and continue to be hugely expensive and risky. Some of you are thinking "No, the real reason that the production increased was the increase in the price of crude oil. The price of crude oil did not jump significantly until several years after the tax incentives were enacted. I believe that this graph proves without a doubt that tax incentives bring exploration dollars to Montana.

Next, I would like to take the next two minutes to compare Montana at \$205 million in direct revenue to our neighbors to the North and to the South.

There were 16,500 wells drilled in Alberta last year, and the province enjoyed nearly 10 billion dollars in direct production tax revenue.

Wyoming saw 3,200 wells and received 1.7 billion dollars in direct revenue from production taxes.

These are impressive numbers! Wyoming saw 8 times our production income of \$205 million, and Alberta fifty times our income! No wonder their parks, streets, and schools are so beautiful!

I think you know where I'm going with this. I believe it is at best shortsighted for the Montana Legislature to reduce incentives to the O&G Industry. The real opportunity for the State to increase general fund income is to promote the Energy Industry. I ~~would~~ *understand* ~~guess~~ that HB598 will bring in ~~a couple of~~ ⁵⁹ million dollars a year? That number is peanuts when compared with financial potential of larger industry presence. This bill would have us running past dollars while chasing after dimes.

HB598 also sends a message to Industry. It proclaims to O&G executives "Go spend your exploration dollars elsewhere! My suggestion to you is to turn 180 degrees from the direction of HB598. If I was a member of this committee, I would urge you to focus on looking for new ways to promote the Energy Industry in Montana—and not just O&G. I would lay out the red carpet to businesses who have so much to offer—who provide great jobs, great opportunities, and great incomes for the people of Montana.

Let's review the numbers:

- Montana, 1,000 wells, \$205 million direct revenue.
- Wyoming, 3,200 wells, \$1.7 billion direct revenue.
- Alberta, 16,500 wells, \$10 billion direct revenue.

Montana is situated directly between Wyoming and Alberta, and I believe that Montana is equal to both in potential as an Energy Producer. It is imperative that we all work together towards (1) reaching our potential and (2) fulfilling our destiny as the Treasure State.



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